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Estimate of the Effects of a Free World  
Embargo on Exports to Cuba

The economic impact of a Free World embargo on exports to Cuba will depend upon (1) the extent to which Cuba may be able to import indirectly through the Bloc, and (2) the significance of imports from the Free World to the Cuban economy. It is assumed in this paper that direct Free World exports to Cuba can be completely shut off. In practice, however, the problems of policing and enforcement are of such Herculean proportions that some Western exportation will undoubtedly continue.

Although Cuba could be cut off from direct access to Western exports, the possibility of indirect trade through the Bloc remains. If the embargo is not accompanied by a boycott on Cuban goods, Cuba will continue to earn convertible currency for exports to the Free World. These earnings could then be utilized by other Bloc countries, acting as an agent for Cuba, to acquire goods for re-export to Cuba. Even if a boycott were imposed upon Cuban goods, one would have to assume that indirect trade would merely be expanded to include Cuban exports as well as imports. The removal of Cuban sugar from the Free World market would drive prices to very high levels. Under these conditions, the Bloc would find it both easy and profitable to re-export Cuban sugar and thus to earn the exchange needed to purchase and re-export the Western goods which Cuba needs.

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The economic effect of this indirect trade would largely take the form of an adverse shift in Cuba's terms of trade, export earnings would be reduced, and the cost of imports would be increased because of the interjection of a Bloc middleman for both types of transaction. Because the cost of Free World imports would be higher under conditions of an embargo, Cuba would probably turn to the Bloc for many items now imported from the Free World. The shift of Cuban trade either to the Bloc or to an indirect basis would be made easier because of the fact that the Bloc already accounts for more than 80 percent of Cuba's total trade.

The importance to the Cuban economy of imports from the Free World has declined steadily during the past two years. By the end of 1962, the Free World share of Cuba's imports was probably not much more than 10 percent of the total value of all imports. For 1962 as a whole, the Free World share was about 15 percent since the rate of imports from these countries declined steadily throughout the year. In 1961, the Free World accounted for over 25 percent of the value of all imports and in 1960 for nearly 80 percent. The evidence indicates that Cuban imports from the Free World will remain at the low levels of late 1962 for at least the first few months of 1963.

The role in the Cuban economy of imports from the Free World is twofold. First, these imports provide Cuba with commodities which the Bloc is either unable to produce or which it could supply only with difficulty. Second, imports from the Free World assure Cuba greater continuity of supply than would be the case if it were necessary to

rely on Bloc supply alone. Many items imported from the West are available from the Bloc but not necessarily in the amounts needed or at the time needed. Cuba's ability to turn to a non-Bloc supplier when necessary has thus contributed to the smoother functioning of the Cuban economy.

Free World countries supply Cuba with a considerable range of commodities. The capital goods exports to Cuba include everything from small items such as bearings and hand tools to large industrial components such as electrical generating units and a few complete industrial plants. Raw materials imports from the Free World are equally diverse and include goods utilized by the paper, rayon, rubber, soap and detergent, paint and lacquer, petroleum, fertilizer, and iron and steel industries. Some foods are also imported along with a few other consumer goods, primarily pharmaceuticals.

The most critical items from the Free World are spare parts for US and West European machinery and equipment. In most cases, precise duplicates of these Western-origin parts are not available within the Bloc as off-the-shelf items. The Bloc could undertake to provide Cuba indirectly with such parts, however, by acquiring them in the West. Alternatively, the Bloc could either duplicate the parts through custom fabrication or bypass the problem by providing complete new units of machinery and equipment instead of parts. Thus, Cuba would probably be able, in one way or another, to circumvent or at least mitigate the spare parts problem. Resort to such expedients, however, clearly would increase the cost -- in terms both of lost time and money -- of maintaining Cuba's present industrial plant and transport equipment.

In the case of items other than spare parts, the Bloc can supply most of them or at least supply useable substitutes. Here again the impact of an embargo would take the form of increased costs of one kind or another. Time would be lost as adaptation is made to materials that were not perfect substitutes for those from the Free World. Larger raw materials inventories would be necessary to compensate for irregular and uncertain supply from the Bloc. In some cases, specialized materials or equipment may need to be acquired indirectly from a Free World supplier through the Bloc with a corresponding increase in money cost.

Thus it appears that a boycott will not deny Cuba access to the imports that its economy requires. It would place new burdens on the economy, however, in the form of additional money costs, lost time, and a general increase in overall production problems. Such an added burden would perhaps be enough to retard to some degree the economic improvement which might otherwise be possible during 1963.

MEMORANDUM FOR: Mr. Gordon Chase  
The White House

This is not a formal Agency estimate, but it was prepared by our economic experts and its judgments are consistent with those in the draft NIE 85-63, "Possible Developments With Respect to Cuba," now in preparation. Additionally, it does not discuss the political problem of the likelihood of establishing a Free World embargo on Cuba.

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Attachment

*Cuba file*

1 March 1963  
(DATE)

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1 AUG 54 WHICH MAY BE USED.

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